



Netwatch

By Jim Carroll

Your guide to business & accounting on the Internet

Digital currencies

One of the most unique trends on the Internet today involves the emergence of digital currency, a new form of online payment that transcends borders, financial systems, tax authorities and other traditional regulatory groups. These services are used for

legitimate online business transactions but can also be used for nefarious purposes.

So what is digital currency? Simply, it is an account you set up on an Internet payment service such as PayPal to pay for online purchases. A subsidiary of eBay, PayPal is used by countless online users to accept payment for online auction services and is being integrated as a payment alternative for the thousands of shopping sites

on the Internet. With 100 million users, digital currency transfers \$25 billion between online buyers and sellers each year.

Services such as PayPal also feature sophisticated links to the existing financial infrastructure, enabling funds earned in these accounts to be transferred to credit cards and bank accounts. As a result,

you can earn funds in your PayPal account, then with the click of a button (and for a small fee) transfer them directly to your Canadian bank account. PayPal, and similar services, takes great pains to point out that these accounts are most often used for legitimate services, such as online auctions and e-commerce transactions. Yet if you think about it, it is entirely possible for someone to also "sell" their services through the Internet, receive payment in digital currency, then spend their earnings through various online shopping sites without ever touching the Canadian financial system. In this way, the PayPal account is considered a new form of digital currency.

And other services abound: eGold, a service recently covered in *BusinessWeek* magazine, described itself as "an electronic currency, issued by e-gold Ltd., a Nevis corporation, 100% backed at all times by gold bullion in allocated storage." However, *BusinessWeek*

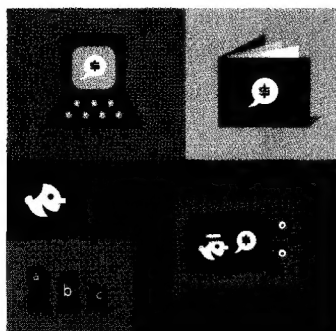
focused on the potential illegal activities that such a service could be used for; eGold fought back furiously with a PR campaign, stating it is most often used as an alternative and legitimate payment mechanism.

Beyond online digital currencies, there are also an increasing number of online money transfer services. Take Xoom.com, a unique service that transfers funds to people in 33 countries. Depending on the country, recipients can obtain their funds directly from their bank account, have it delivered to them, or receive an ATM card pre-loaded with the amount of the transfer.

And these three services are just the tip of the iceberg. There are dozens, if not hundreds, of unique and sophisticated online payment services — all of which can be used for both legal and illegal purposes. It bodes well to be aware, understand how digital currencies work and keep an ear to the ground to determine which one may or may not have a negative impact on your client or corporate operations.

The most fascinating aspect of digital currency is its acceptance by Gen-Y, the first generation born into — between 1976 and 1990 — an Internet-based world and will represent 25% of the population by 2010. This group is financially savvy, uses credit cards regularly, banks online and now dominates the widespread use of digital currency. It, perhaps, is most significantly impacting the growth of global payment.

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eGold www.egold.com

Xoom www.xoom.com